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Energy Commission Acts to Protect and Expand Property-Assessed Clean Energy Financing Options

Strongly Rejects FHFA Faulty Logic

SACRAMENTO— The California Energy Commission canceled a \$30 million solicitation that would have supported PACE programs in 23 counties and 184 cities. The Commission action, which responded to roadblocks created by recent actions of the Federal Housing Financing Authority (FHFA), ended awards to five local governments and jurisdictions that were using Property-Assessed Clean Energy (PACE) financing as the cornerstone of their county and statewide energy investment programs.

"PACE is an essential and necessary tool to help Californians invest in energy efficiency retrofits for their homes and achieve our state's energy and environmental goals while adding clean energy jobs," commented Karen Douglas, Chairman California Energy Commission. "Unfortunately, FHFA has undermined California's job creation and environmental initiatives by creating significant new regulatory hurdles for PACE programs at the eleventh hour.

"This action is necessary to expand the financial options available to local governments to achieve residential energy efficiency retrofits. It is vital that energy financing programs, including PACE, are offered so building owners can overcome one of the biggest obstacles to investing in energy efficiency and renewable energy projects – lack of access to long term, low-interest financing," she continued.

PACE financing has been recognized throughout the nation as a potential breakthrough financing option that allows building owners to fund permanent energy efficiency and on-site renewable energy improvements through a voluntary assessments paid with their property taxes.

On July 6, 2010, the FHFA reversed their earlier position and damaged the authority of local governments to issue priority lien tax assessments by directing Fannie Mae and Freddie Mac to take punitive actions against homeowners who live in communities that participate in PACE financing programs. The FHFA had originally stated that lenders should treat PACE assessments as any tax or assessment that may take priority over Fannie Mae's lien.

California has been an early leader and innovator in developing and implementing the PACE financing concept. The City of Berkeley, City of Palm Desert and County of Sonoma piloted the first PACE programs beginning in 2008.

With strong federal encouragement and recognizing the potential of PACE, the Energy Commission invested \$110 million of its federal stimulus State Energy Program funding in pursuing three competitive program solicitations for 1) PACE municipal financing, 2) municipal and commercial building targeted retrofits, and 3) comprehensive residential building retrofits. Five local governments that would have established PACE programs in 23 counties and 184 cities received \$30 million of this total under the Municipal Financing Program. These entities were expected to leverage \$370 million, create 4,353 jobs, save more than 336 million kilowatt-hours of energy, and avoid the emissions of 187,264 tons of greenhouse gasses for the first two years of the program.

The Energy Commission strongly supports the authority for California local governments to provide PACE financing through property assessments, and the extensive efforts at the local level over the past year plus to develop this innovative approach. The FHFA, however, should not be in the business of interfering with municipal discretion to use their taxing authority for the general welfare to upgrade their infrastructure and local resources.

"The Governor, California's Congressional delegation, the State Legislature, the Attorney General and 21 states recognize the crucial value PACE financing offers and is working with the White House to address the FHFA PACE financing issues. We are optimistic that this issue will be resolved," said Douglas. "Given, however, the strict deadlines for expanding Recovery Act funds, the Energy Commission must act quickly to encumber the federal stimulus funds under the Municipal Financing Program in a way that supports and allows additional financing options, including PACE, to ensure that the benefits of this program are protected."

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Staff recommendation paper on canceling the SEP Municipal financing solicitation is available at:

http://www.energy.ca.gov/business_meetings/2010_packets/2010-07-28/2010-07-28_Item_05/2010-07-28_Item_05_Staff_Paper.PDF

More information regarding the SEP municipal financing program is available at:

<http://energy.ca.gov/recovery/sep.html#efficiency>